

# Reverse auctions in South Africa

## Modern-day competitiveness?

The complexities of modern-day competitiveness certainly challenge the traditional business process. Take supply chain for example: it is progressively evolving from overseeing a few disjointed back office functions into a strategic “big picture” leadership role that can radically increase profit margins by up to 22%, according to an IBM CPO study conducted in 2013.

Sourcing too, once considered an administrative task, has now (for the mature organisation at least) become a key measurement for efficiency and has become of strategic importance with direct impact on the bottom line.

Research proves this. According to a US Federal study, reverse auctions (a method of sourcing) accounted for nearly a billion dollars in contracts in fiscal 2012. In addition, according to The Centre for Advanced Purchasing Studies, The Wacht Group and AT Kearney, 73% of all potential savings in the supply chain come from the e-sourcing function alone.

So clearly, sourcing should become one of the top priorities within the supply chain.

Of the many modern-day sourcing tools and techniques, reverse auctions is most certainly the one with the fastest turn-around and most impressive bottom-line results. Being involved with reverse auctions for more than a decade, globally, we have yet to manage an event that doesn't produce impressive results.

## Reverse auctions defined

Of all the complicated definitions of reverse auctions, I have found Wikipedia's explanation the simplest:

“A reverse auction is a type of auction in which the roles of buyer and seller are reversed. In an ordinary auction (also known as a forward auction), buyers compete to obtain a good or service by offering increasingly higher prices. In a reverse auction the sellers compete to obtain business from the buyer and prices will typically decrease as the sellers undercut each other.”

Reverse auctions typically takes place online. A company wishing to procure certain goods or services will identify a certain category /commodity ideal for reverse auctioning (because not all of them are) and then initiate the process. This actual process varies from buying organisation to buying organisation and is typically governed by their conventional internal policies and procedures.

A reverse auction is a formal business-to-business relationship and therefore not open to everyone to see or participate in. A possible supplier for goods and services will be formally approached by a buying company who will then provide all the information the supplier require to successfully participate in the event , including the logistics and timelines. This is usually a closed process, unless it's been managed on behalf of government or semi-government, who will typically advertise the opportunity to eliminate exclusion.

## Reverse auctions considerations

**Auction type:** There are many auction types such as English, English (no ties), Yankee, Sealed, Open, Dynamic Sealed, Dutch, Japanese, Multi Variable, Combinatorial all with a variety of rule combinations and differences. The intricacies of the different types all warrant a dedicated article as they can be rather complex!

**Auction rules:** This will be driven by the auction type, however, certain rules can be enforced such as “no equal bids” or “minimum decrements”, meaning you can only improve your price by a predefined nominal amount.

**Auction duration:** This one is always interesting, as we have participated in reverse auctions ranging from twenty minutes to two weeks! This is driven by so many factors; from commodity strategy to market environment. However, we believe the ideal event should not be longer than only a few hours. For some extreme examples, look out for our future article on “slow auctions”.

**Visibility options:** The strategy of any event can be dynamically controlled by what we refer to as “visibility options”. For example, it may be decided that the actual leading price is visible to everyone, or only ranks. We have managed events where the buying organisation has actually made the supplier names visible! Again, this is driven by market dynamics and personal preference.

**Extensions:** Suppliers do learn fast, especially if a good deal depends on it! Suppliers could sometimes wait until the absolute last minute or second to submit a bid, just to ensure no one else stand a chance to improve on their bid, so the event closes, with them as the “winning” bidder. We never recommend this strategy; waiting until the last second could sometimes cause bids not to go through due to network latency. To prevent this, extensions are allowed, that is if a bid is placed in the last thirty seconds, the closing time automatically extends for another two minutes. We have managed events where the event is scheduled for only twenty minutes, but with an unlimited extension time. These events sometimes carry on for several hours.

## Benefits, and yes, it benefits all

### Buyer benefits

**Save money:** The obvious and probably key benefit of reverse auctions: discovering the ACTUAL and best market price.

**Save time:** Faster sourcing process and faster results: cycle time reductions of up to 70%. Depending on the complexity, an event can be completed in as little as two weeks. Price driven commodities using the dynamic bidding service can be turned around in as little as 72 hours.

**World best practice:** Be assured that methodologies and strategies deployed for reverse auctions are driven by best in class process.

**Optimise your supply base:** Buying organisations will be exposed to a much broader supply base.

**Risk free:** Unlike popular belief, reverse auctions are safe and low risk, depending on the business model and if managed professionally by experienced people.



**Transparency:** Reverse auctions promote transparency, uniformity and predictable process and pricing.

**Improved enforcement:** Organisational purchasing policies are better controlled and enforced, leading to more effective buying and control over requirement compliance.

**Improved measurement:** Better supplier measurement leads to the ability to better control spending.

## Supplier benefits

**New business opportunities:** Suppliers are exposed to an increased number of opportunities and through their involvement become familiar with the process, which allows for fast turn-around and delivery.

**Level the playing field:** This process promotes transparency on supplier performance, allowing suppliers to know the market price and allowing them to compete more effectively for the business.

**Strong support:** Suppliers receive support and have access to support services in case of operational or network downtime, ensuring the process can continue in the unlikely event of operational challenges.

**Transparency:** Reverse auctions promote transparency, uniformity and predictable process and pricing.

**Reduce marketing costs:** Lower selling / customer acquisition costs.

**Market intelligence:** Supplier exposure amongst peers, improves market intelligence and oppositional positioning.

## But what's happening in South Africa?

Unfortunately, little as far as reverse auctions is concerned.

According to associate professor of law at the North West University, Stephen de la Harpe, there is in principle no reason why reverse auctions cannot be used in public procurement in South Africa as long as the use thereof complies with the constitutional imperatives of fairness, equitability, transparency, competitiveness and cost effectiveness. All these drivers are certainly promoted through reverse auctions.

This can easily be extended to the private sector as well, who is constantly measured against compliance, not that dissimilar from the public sector.

Many organisations locally, public and private, have tried and tested reverse auctions in the last few years, but unfortunately the lack of local skills and experience as well as high implementation costs (technology and consulting) remains a stumbling block for sustainably running reverse auctions.

The Supply Chain Partnership has substantial local experience in this field. We have helped our customers, public and private institutions, successfully run hundreds of sourcing events and have achieved an average of 27% savings across large-spend categories. The good news is that we are technology independent and can utilise existing investments or use outsourced technologies.



If you are interested in reducing the administrative burden of traditional long lead time sourcing, while realising quick bottom line benefits, compliance, fairness, equitability, transparency, competitiveness, cost effectiveness and customer satisfaction consider applying this powerful concept.

## About Supply Chain Partner

Supply Chain Partner is a specialist supply chain service provider that enables companies to realise sustainable and value-generating procurement solutions. We work alongside our clients and partners to create fit-for-purpose solutions while enhancing employee efficiency and effectiveness.

Interested in finding out more?

Call us now on 0861-1-SUPPLY (787759)

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